PENSIONS
INVESTMENTS
LIFE INSURANCE

Irish Life

AN ADVISERS GUIDE TO:

COMPANY PENSION RETIREMENT OPTIONS 2018

UPDATED FOR FINANCE ACT 2017

AN ADVISER’S GUIDE TO PENSIONS

CONTENTS

SECTION 1

RETIREMENT OPTIONS

The options available at retirement will depend whether the member is in a defined benefit (DB) or defined contribution (DC) scheme and if the scheme rules have been updated to allow ARF options. The tables below provide a brief summary of the options available.

COMPANY PENSION SCHEMES

Pension Type	Option 1: Salary & Service	Option 2: ARF Options
DC Pension Scheme set up prior to 6 February 2011	YES	YES if scheme rules updated to allow for ARF Options.
DC Pension Scheme set up after 6 February 2011	YES	YES
DB Pension Scheme	YES	NO Proprietary directors may have ARF options if scheme rules allow

Retirement benefits from all company pension and AVC schemes relating to the same employment must be taken at the same time and under the same route.

PERSONAL RETIREMENT BONDS (PRBs)

Original Pension Scheme	Option 1: Salary & Service	Option 2: ARF Options
From DC schemes	YES	YES
From DB Schemes	YES	YES

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1.1 SALARY AND SERVICE ROUTE

RETIREMENT LUMP SUM

The retirement lump sum available under this route will depend on the member's salary and service with the company.

The maximum retirement lump sum is 150% of final salary after 20 years of service and where benefits are taken at normal retirement age (NRA). This is reduced where benefits are taken before normal retirement age or where service is less than 20 years. The maximum retirement lump sum will also be reduced if someone leaves service before NRA. More details on how to calculate the maximum retirement lump sum can be found in section 2.

See section 3.1 for more information on the taxation of retirement lump sums.

BALANCE OF THE FUND

The balance of the fund must be used to buy an annuity.

AVC FUNDS / PRSA AVCs

If the member has funds built up by Additional Voluntary Contributions (AVCs) they can be used to maximise the retirement lump sum from the company pension scheme up to the maximum allowed by the Revenue Commissioners. See section 2 for how to calculate the maximum retirement lump sum.

The balance of the AVC fund can then be used for one or more of:

- buy an annuity
- transfer to an ARF*
- take as taxable cash*
- Vested PRSA (only available with PRSA AVCs)

* In order to avail of these options the client must have one of:

- a guaranteed pension income for life of €12,700 a year, or
- used at least €63,500 to buy an annuity, or
- invested €63,500 in an Approved Minimum Retirement Fund (AMRF)

The guaranteed pension income can be made up of the State Pension personal rate and other pension income.

PRSA AVCs

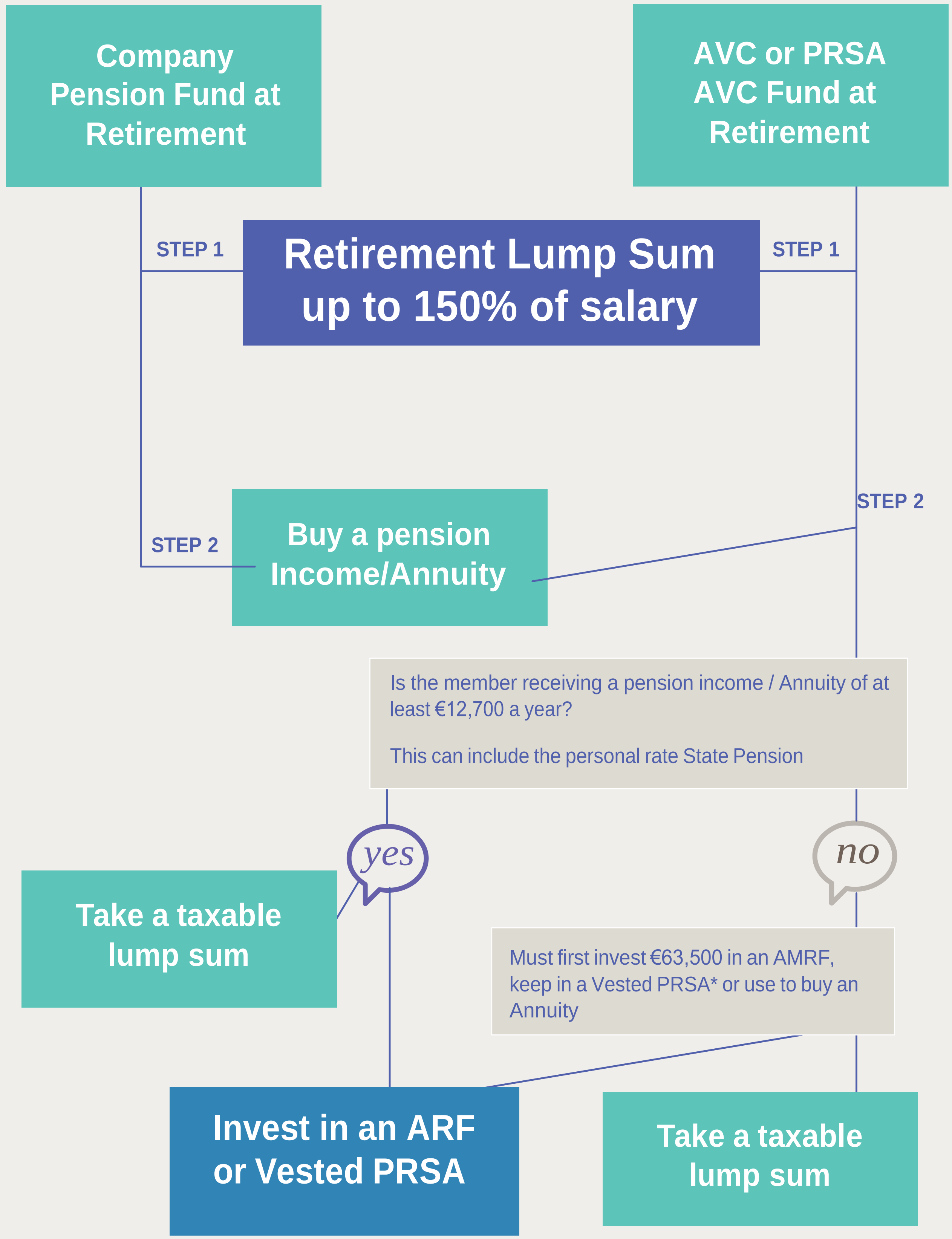
If the member paid AVCs into a PRSA they have the additional option of leaving the balance of the fund in the PRSA as a vested PRSA. The vested PRSA will be treated similarly to an AMRF or ARF.

Restrictions apply to Vested PRSAs from age 75. For more information on Annuities, ARFs and Vested PRSAs see our Adviser's Guide to Pensions available on www.bline.ie

NOTE:

When discussing the points covered in this section with customers you must advise the following:

- that the value of the customer's investment may go down as well as up; and
- that any income the customer gets from the investments above may also go down as well as up and it is possible that the fund could run out before the customer dies;
- that if the customer invests in the products mentioned above, they may lose some or all of the money invested



*Note: Members with PRSA AVCs also have the option to continue their PRSA as a vested PRSA instead of taking out an ARF or AMRF. Restrictions apply to Vested PRSAs from age 75. See our Adviser's Guide to Pensions for more information.

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1.2 APPROVED RETIREMENT FUND (ARF) OPTIONS

RETIREMENT LUMP SUM

The member can take a retirement lump sum of up to 25% from the company pension scheme plus any AVC and PRSA AVC plans.

See section 3.1 for more information on the taxation of retirement lump sums.

BALANCE OF THE FUND

The balance of the fund can be used for one or more of:

- buy an annuity
- transfer to an ARF*
- take as taxable cash*
- Vested PRSA (only available with PRSA AVCs)

* In order to avail of these options the client must have one of:

- a guaranteed pension income for life of €12,700 a year, or
- used at least €63,500 to buy an annuity, or
- invested €63,500 in an AMRF

The guaranteed pension income can be made up of the State Pension personal rate and other pension income.

PRSA AVCs

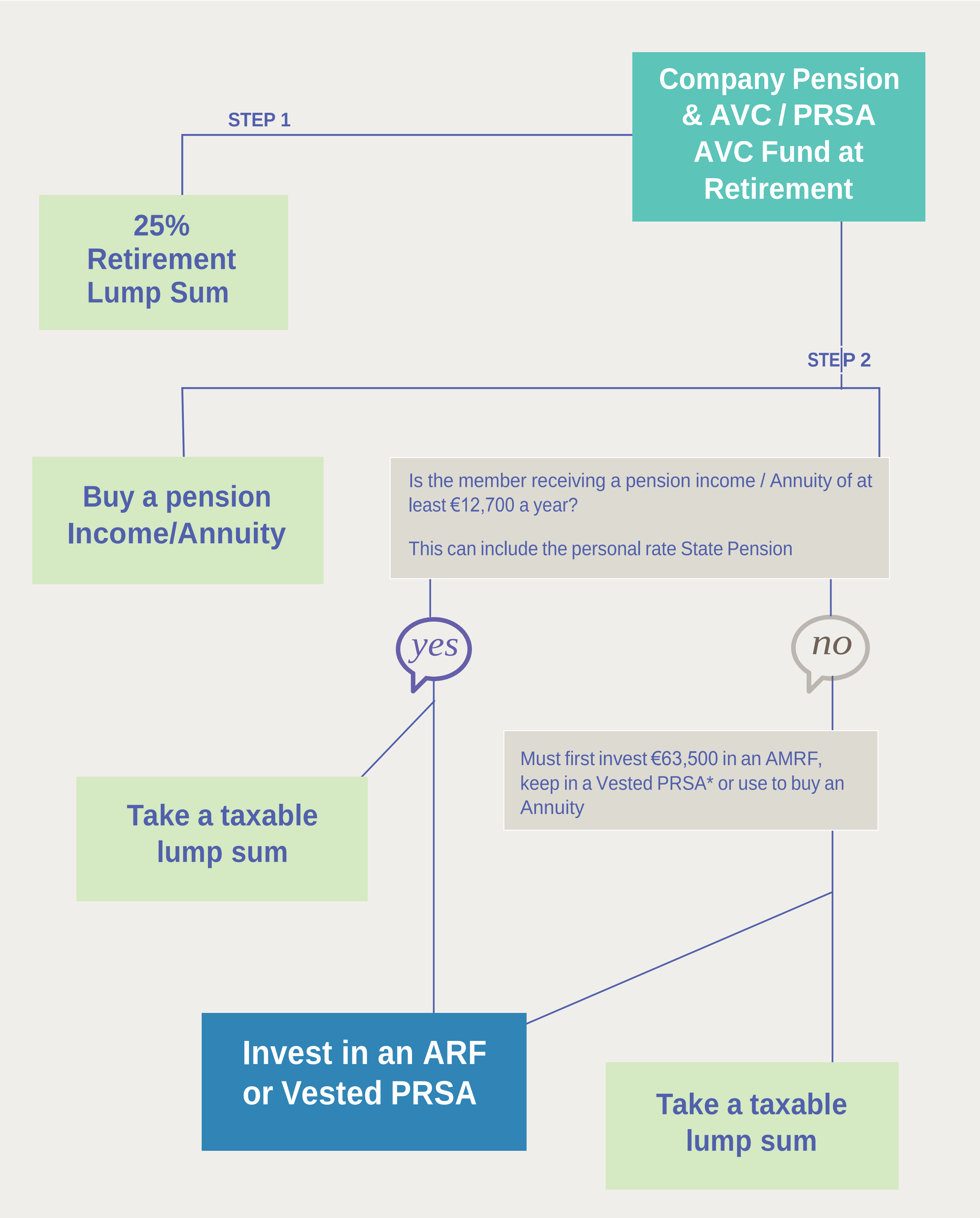
If the member paid AVCs into a PRSA they have the additional option of leaving the balance of the fund in the PRSA as a vested PRSA. The vested PRSA will be treated similarly to an AMRF or ARF.

Restrictions apply to Vested PRSAs from age 75. For more information on Annuities, ARFs and Vested PRSAs see our Adviser's Guide to Pensions available on www.bline.ie.

NOTE:

When discussing the points covered in this section with customers you must advise the following:

- that the value of the customer's investment may go down as well as up; and
- that any income the customer gets from the investments above may also go down as well as up and it is possible that the fund could run out before the customer dies;
- that if the customer invests in the products mentioned above, they may lose some or all of the money invested



*Note: members with PRSA AVCs also have the option to continue their PRSA as a Vested PRSA instead of taking out an ARF or AMRF. Restrictions apply to Vested PRSAs from age 75. See our Adviser's Guide to Pensions for more information.

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1.3 TRIVIAL PENSIONS

A trivial pension is an option available to those who have very small pension funds at the point of retirement. This provides them with their retirement lump sum in the normal way and allows them take the balance as a once off taxable lump sum. There are two ways a trivial pension can be provided:

OPTION A

Where the value of **all** the member's pension funds after the payment of the retirement lump sum is less than **€20,000** then they can take the balance of the fund as a once off taxable payment.

Under this option then the balance of the fund after the retirement lump sum will be subject to marginal rate income tax and the Universal Social Charge (USC).

OPTION B

If the total benefits payable from the relevant employment to a member does not exceed **€330** a year then the fund can be paid out as a taxable lump sum. In this case the calculation must be done before the retirement lump sum is taken and should be based on a single life annuity rate with no escalation.

If the trivial pension is paid under this option then the balance of the fund after the retirement lump sum will be subject to income tax at a rate of 10%.

1.4 MIXTURE OF DB AND DC BENEFITS FOR THE SAME EMPLOYMENT

Where an employee has a mixture of DB and DC pension benefits relating to the same employment they can avail of the ARF and taxable lump sum options from their DC scheme. However, certain conditions do apply.

- As with all company pensions, irrespective of how they actually take retirement benefits their total pension benefits cannot exceed the overall Revenue maximum limits, i.e. a pension of 2/3rds final salary where there is at least 10 years service with the employer.
- If the employee takes their maximum salary & service retirement lump sum from the DB scheme, e.g. of up to 1.5 times final salary, then no further retirement lump sum can be taken from the DC scheme.
- If the employee decides to take their retirement lump sum benefit under the salary & service route, the maximum retirement lump sum can be paid from the DC scheme, or by commuting the DB pension, or a mixture of both. The remainder of the DC scheme assets must be used to purchase an annuity. Any AVCs will continue to have the ARF option.
- If the employee opts to take a retirement lump sum of up to 25% of the DC value, then ARF options will be available from the remainder of the DC scheme and AVC assets.

  The DB scheme will only have the salary & service retirement lump sum option. If the 25% retirement lump sum paid from the DC scheme is greater than the maximum salary & service retirement lump sum then no further retirement lump sum is payable from the DB scheme.

  However, if the 25% retirement lump sum is less than the maximum salary & service retirement lump sum then a further retirement lump sum is available from the DB scheme. This should be calculated by the DB scheme administrator in line with their scheme rules, but capped at the Revenue maximum salary & service retirement lump sum less the 25% retirement lump sum paid from the DC scheme.

SECTION 2

SALARY AND SERVICE CALCULATIONS

Maximum benefits at retirement can be calculated either by using the strict scales or the uplifted scales.

STRICT SCALE – MAXIMUM PENSION

The strict N/60ths scale provides for a pension of 1/60th of final salary for each year of service. This requires a member to have at least 40 years of service with their employer in order to obtain the maximum pension of 40/60ths or 2/3rds final salary. Retained benefits from previous employments are not included in the calculations when using the strict scale.

UPLIFTED SCALE – MAXIMUM PENSION

The uplifted scale allows the member to accrue a pension of 4/60ths of final salary for each year of service. This means that after 10 years of service they can obtain the maximum pension of 2/3rds final salary.

This will be reduced if benefits are taken before normal retirement age (NRA) or where the member leaves service before normal retirement age.

Retained benefits from previous employments do have to be taken into account when using the uplifted scale.

Service at NRA	Max. as fraction of Final Salary
1yr	4/60ths
2yrs	8/60ths
3yrs	12/60ths
4yrs	16/60ths
5yrs	20/60ths
6yrs	24/60ths
7yrs	28/60ths
8yrs	32/60ths
9yrs	36/60ths
10yrs	40/60ths

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STRICT SCALE – MAXIMUM RETIREMENT LUMP SUM

The strict 3N/80ths scale provides for a retirement lump sum of 3/80ths of final salary for each year of service. This requires a member to have at least 40 years of service with their employer in order to obtain the maximum pension of 120/80ths or 150% of final salary. Retained lump sum benefits from previous employments are not included in the calculations when using the strict scale.

RETIREMENT LUMP SUMS AND REDUCED PENSIONS

Most schemes allow the member the option to take their maximum retirement lump sum and a reduced pension. Where the retirement lump sum is taken the maximum pension is reduced by the pension equivalent of the lump sum. This means that the member cannot get the maximum 2/3rds pension plus the maximum retirement lump sum of 150% of final salary.

UPLIFTED SCALE – MAXIMUM RETIREMENT LUMP SUM

For retirement lump sums the uplifted scale allows for the maximum lump sum of 120/80ths or 150% of final salary after 20 years of service at normal retirement age. The lump sum available for less than 20 years of service is show in the table across.

This will be reduced if benefits are taken before normal retirement age or where the member leaves service before normal retirement age.

Retained lump sum benefits from previous employments must be taken into account when using the uplifted scale.

Service at NRA	Max. as fraction of Final Salary
1 – 8 yrs	3/80ths each year
9 yrs	30/80ths
10 yrs	36/80ths
11 yrs	42/80ths
12 yrs	48/80ths
13 yrs	54/80ths
14 yrs	63/80ths
15 yrs	72/80ths
16 yrs	81/80ths
17 yrs	90/80ths
18 yrs	99/80ths
19 yrs	108/80ths
20 yrs	120/80ths

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2.1 MEMBER STAYS IN SERVICE AND TAKES BENEFITS AT NORMAL RETIREMENT AGE

MAXIMUM PENSION BENEFITS

The maximum pension available at normal retirement age (NRA) depends on the member's salary and service with their employer subject to the overall Revenue maximum pension of 2/3rds final salary.

The maximum pension at NRA is calculated as follows:

1) 1/60th of final salary for each year of service, to a maximum of 40/60ths

Or, the lower of

2) Pension on the uplifted scale (shown below), and

3) Pension of 2/3rds final salary less retained benefits

Service at NRA	Max. as fraction of Final Salary
1yr	4/60ths
2yrs	8/60ths
3yrs	12/60ths
4yrs	16/60ths
5yrs	20/60ths
6yrs	24/60ths
7yrs	28/60ths
8yrs	32/60ths
9yrs	36/60ths
10yrs	40/60ths

Example

Mary has 20 years of service with her current employer at NRA. Her final salary at that date is €24,000. She has a retained benefit from a previous employer of €5,000 per annum. The maximum pension she can have with his current employer is:

1) 20/60ths x €24,000 = €8,000 per annum (pa).

This is regardless of the €5,000pa retained benefit from her previous employer.

However under the uplifted scale she can have a pension of the lower of:

2) 2/3rds x €24,000 = €16,000pa, and

3) (2/3rds x €24,000) - €5,000 = €11,000pa

Therefore the maximum pension Mary can have at NRA from her current employment is €11,000pa.

MAXIMUM RETIREMENT LUMP SUM

The maximum retirement lump sum at NRA is calculated as follows

1) 3/80ths of final salary for each year of service, to a maximum of 120/80ths

Or, the lower of

2) Lump Sum on the Uplifted Scale (shown below), and

3) 1.5 times final salary less retained lump sum benefits

Service at NRA	Max. as fraction of Final Salary
1 – 8 yrs	3/80ths each year
9 yrs	30/80ths
10 yrs	36/80ths
11 yrs	42/80ths
12 yrs	48/80ths
13 yrs	54/80ths
14 yrs	63/80ths
15 yrs	72/80ths
16 yrs	81/80ths
17 yrs	90/80ths
18 yrs	99/80ths
19 yrs	108/80ths
20 yrs	120/80ths

Example

On reaching normal retirement age John has 14 years of service with his employer. His final salary at that date is €25,000. He has a retained benefit retirement lump sum from a previous employer of €10,000. The maximum retirement lump sum he can have with his current employer is:

1) 14x3/80ths x €25,000 = €13,125

This is regardless of the €10,000 retained lump sum benefit from his previous employer.

However under the uplifted scale he can have a lump sum of the lower of:

2) 63/80ths x €25,000 = €19,687, and

3) 120/80ths x €25,000 - €10,000 = €27,500

Therefore the maximum lump sum John can have at NRA from his current employer is €19,687.

2.2 DEFERRED PENSION BENEFITS TAKEN AT NORMAL RETIREMENT AGE

Where a member has a deferred pension benefit with a previous employment, the maximum benefits will be reduced by their actual service over their potential service even if benefits are taken at normal retirement age (NRA). This reduction does not apply where benefits are calculated using the strict scale.

MAXIMUM PENSION BENEFITS

The maximum pension is the higher of:

1) 1/60th of final salary for each year of service, to a maximum of 40/60ths

and

2) N / NS x P

where,

N = the number of years of service actually completed

NS = number of years of service which would have been completed if the member remained in service

P = the maximum pension which would have been provided for the member at NRA had they remained in service until then. See section 2.1 for how to calculate the maximum pension at NRA.

Example

Sarah had 10 years of service when she left her former employer at age 40 with a final salary of €35,000. She is now age 60 and wants to take retirement benefits. The normal retirement age of the scheme is 60. She has no retained benefits from previous employments.

The maximum pension she can be provided with is the higher of:

1) 10/60ths x €35,000 = €5,833pa, and

2) N/NS x P , where

N = 10 years

NS = 30 years

P = 2/3 x €35,000 = €23,333pa (calculated in accordance with section 2.1)

10/30 x €23,333 = €7,777pa

Therefore the maximum pension that can be provided is €7,777 pa.

MAXIMUM RETIREMENT LUMP SUM

The maximum retirement lump sum is the higher of:

1) 3/80ths of final salary for each year of service, to a maximum of 120/80ths

and

2) N / NS x LS

where,

N = the number of years of service actually completed

NS = number of years of service which would have been completed if the member remained in service

LS = the maximum lump sum which would have been provided for the member at NRA has they remained in service until then. See section 2.1 for how to calculate the maximum pension at NRA.

Example

Sarah has a paid up pension benefit from a previous employer she left 10 years ago. She has now reached age 60; the scheme's NRA and is going to take retirement benefits. She had 20 years of service with her previous employer and had a final salary of €40,000.

She also has a personal pension from an earlier period of self-employment which will provide her with a retirement lump sum of €6,000.

The maximum retirement lump sum available from this scheme is the higher of:

1) 20 x 3/80ths x €40,000 = €30,000, and

2) N / NS x LS, where

N = 20 years

NS = 30 years

LS = 120/80ths x €40,000 - €6,000 = €54,000 (calculated in accordance with section 2.1)

20/30 x €54,000 = €36,000

Therefore the maximum lump sum which can be provided is €36,000.

2.3 EARLY RETIREMENT

Early retirement is available from age 50 and where a member leaves service. Early retirement occurs where benefits are taken before the normal retirement age of the pension scheme. In such cases the maximum benefits are often reduced by member's actual service over their potential service to NRA. This reduction does not apply where benefits are calculated using the strict scale.

MAXIMUM PENSION BENEFITS

The maximum pension is the higher of:

1) 1/60th of final salary for each year of service, to a maximum of 40/60ths, and

2) N / NS x P

where,

N = the number of years of service actually completed

NS = number of years of service which would have been completed if the member remained in service

P = the maximum pension which would have been provided for the member at NRA had they remained in service until then. See section 2.1 for how to calculate the maximum pension at NRA.

But where the member has less than 10 years of service completed the maximum pension is:

1) 1/60th of final salary for each year of service, to a maximum of 40/60ths

or the lower of:

2) N / NS x P

3) Maximum pension on the uplifted scale taking actual service into account, and

4) 2/3rds final salary less any retained benefits

Service at NRA	Max. as fraction of Final Salary
1yr	4/60ths
2yrs	8/60ths
3yrs	12/60ths
4yrs	16/60ths
5yrs	20/60ths
6yrs	24/60ths
7yrs	28/60ths
8yrs	32/60ths
9yrs	36/60ths
10yrs	40/60ths

Example 1

Paul has 17 years of service with his employer when he decides to take early retirement at age 55. The normal retirement age is 60. His final salary is €50,000 and he has a paid up pension of €10,000pa with a previous employer.

The maximum pension he can have is the higher of:

1) 17/60 x €50,000 = €14,166pa, and

2) N / NS x P, where

N = 17 years
NS = 22 years
P = (2/3rds x €50,000) - €10,000 = €23,333pa (calculated in accordance with section 2.1)

17/22 x €23,333 = €18,030pa

Therefore the maximum pension available to Paul is €18,030pa.

Example 2

Paula has 9 years of service with her employer at age 50 when she decides to take early retirement. The normal retirement age of the scheme is 60. Her final salary is €30,000 and she has retained benefits of €8,000pa.

The maximum pension she can have is:

1) 9/60ths x €30,000 = €4,500pa

or the lower of:

2) N / NS x P, where

N = 9
NS = 19
P = 2/3rds x €30,000 - €8,000 = €12,000 pa (calculated in accordance with section 2.1)

9/19 x €12,000 = €5,684pa

3) 36/60ths x €30,000 = €18,000pa

4) 2/3rds x €30,000 - €8,000 = €12,000pa

Therefore the maximum pension that can be provided is €5,684pa.

MAXIMUM RETIREMENT LUMP SUM

The maximum retirement lump sum is the higher of:

1) 3/80ths of final salary for each year of service, to a maximum of 120/80ths, and

2) N / NS x LS

where,

N = the number of years of service actually completed

NS = number of years of service which would have been completed if the member remained in service

LS = the maximum lump sum which would have been provided for the member at NRA had they remained in service until then, see section 2.1 for how to calculate.

Example 1

Kate has 27 years of service with her employer at age 55 when she takes early retirement. Her final salary is €35,000 and she has no retained lump sum benefits. The normal retirement age of the pension scheme is 65.

The maximum retirement lump sum available to Kate is the higher of:

1) 27 x 3/80ths x €35,000 = €35,437.50, and

2) N / NS x LS, where

N = 27 years
NS = 37 years
LS = 120/80ths x €35,000 = €52,500

27/37 x €52,500 = €38,310

Therefore the maximum lump sum available to Kate is €38,310.

But where the member has less than 20 years of service completed the maximum lump sum is:

1) 3/80ths of final salary for each year of service, to a maximum of 120/80ths,

or the lower of:

2) N / NS x LS,

3) Maximum lump sum on the uplifted scale taking actual service into account, and

4) 1.5 x final salary less retained lump sum benefits

Service at NRA	Max. as fraction of Final Salary
1 – 8 yrs	3/80ths each year
9 yrs	30/80ths
10 yrs	36/80ths
11 yrs	42/80ths
12 yrs	48/80ths
13 yrs	54/80ths
14 yrs	63/80ths
15 yrs	72/80ths
16 yrs	81/80ths
17 yrs	90/80ths
18 yrs	99/80ths
19 yrs	108/80ths
20 yrs	120/80ths

Example 2

Jane has 15 years of service with her employer when she takes early retirement at age 55. Her final salary is €35,000. The normal retirement age of the pension scheme is 60. She has a paid up PRSA from a previous employment which will give her a retirement lump sum of €10,000.

The maximum retirement lump sum available to Kate from this employment is

15 x 3/80ths x €35,000 = €19,688

or the lower of:

1) N / NS x LS, where

N = 15 years
NS = 20 years
LS = (120/80ths x €35,000) - €10,000 = €42,500

15/20 x €42,500 = €31,875

2) 72/80ths x €35,000 = €31,500

3) 120/80ths x €35,000 - €10,000 = €42,500

Therefore the maximum lump sum available to Kate is €31,500.

2.4 ILL HEALTH EARLY RETIREMENT

Where a member leaves service due to ill health they can take retirement benefits immediately regardless of their age. The maximum benefits payable are those which would have been available had they remained in employment until normal retirement age, see section 2.1 for how to calculate maximum pension and lump sum.

However, if the member had left service and had a deferred benefit before they took ill health early retirement the maximum benefits are calculated in the same way as set out in section 2.2.

2.5 SERIOUS ILL HEALTH (TERMINAL ILLNESS)

Where a member has been diagnosed with a terminal illness they may be able to fully commute their pension benefits. The Revenue Commissioners only allow commutation on these grounds where the member's life expectancy is "measured in months rather than years". The scheme administrator must obtain medical evidence to support the claim. For 20% directors the Revenue Commissioners must be notified and approve any such claim. This option is not available on personal pensions or PRSAs.

Under this option the benefits are paid out in two parts. The first being the maximum retirement lump sum as allowed for under the scheme rules. The balance of the fund is then paid out as a once off lump sum subject to income tax at 10%.

SECTION 3

TAXATION

3.1 RETIREMENT LUMP SUMS

The maximum retirement lump sum available is calculated at 25% of the Standard Fund Threshold and is currently €500,000.

The maximum retirement lump sum that can be received tax free is €200,000 and lump sums between €200,000 and €500,000 are subject to income tax at 20%.

Any lump sum over €500,000 is treated as taxable cash and is subject to income tax, PRSI and USC.

These limits include any retirement lump sums received since 7 December 2005.

Lump Sum	Tax Due
First €200,000	Exempt
Next €300,000	20% Income Tax
Balance	Marginal rate income tax, plus PRSI & USC

3.2 ANNUITIES

Income from annuities are taxed under the PAYE system as set out across the page.

Income tax is due at the member's marginal rate.

PRSI: there is no PRSI liability on annuity income.

USC will be due at the rates shown across the page depending on the member's circumstances.

For more information on Annuities see our [Adviser's Guide to Pensions]()

Universal Social Charge	USC Rate
Income up to €12,012	0.5%
Between €12,012 and €19,874	2%
Between €19,874 and €70,044	4.5%
Income in excess of €70,044	8%
Full medical card holders and those over age 70 pay USC at the following reduced rates below unless they have earnings greater than €60,000.	
Income up to €12,012	0.5%
Income in excess of €12,012	2%
The USC exemption threshold is €13,000. The USC is paid on gross income, before the deduction of capital allowances or pension contributions. It does not apply to social welfare payments, including contributory and non – contributory social welfare pensions.	

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3.3 AMRFS, ARFS & VESTED PRSAS

Withdrawals from an AMRF, ARF or Vested PRSA are taxed under the PAYE system as set out below.

Income tax is due at the member's marginal rate.

PRSI at 4% is due under Class S until age 66. From 66 there is no PRSI liability.

USC will be due at the rates shown below depending on the member's circumstances.

For more information on AMRFs & ARFs see our Adviser's Guide to Pensions

Universal Social Charge	USC Rate
Income up to €12,012	0.5%
Between €12,013 and €19,874	2%
Between €19,874 and €70,044	4.5%
Income in excess of €70,045	8%
Full medical card holders & over 70s pay the USC at the reduced rates below unless they have earnings greater than €60,000	
Income up to €12,012	0.5%
Income in excess of €12,012	2%
The USC exemption threshold is €13,000. The USC is paid on gross income, before the deduction of capital allowances or pension contributions. It does not apply to social welfare payments, including contributory and non – contributory social welfare pensions.	

3.4 STANDARD FUND THRESHOLD

The Standard Fund Threshold (SFT) is the maximum pension fund someone is allowed at retirement for tax purposes. This is a lifetime limit and includes all pension benefits taken since 7 December 2005.

The Standard Fund Threshold is currently €2,000,000.

At the point of taking retirement benefits any amount over the SFT is subject to tax at the higher rate of tax. This tax will be taken before benefits are paid.

The member cannot use any credits or allowances to reduce this tax liability and tax deducted cannot be offset against any other tax liability. The only exception is where the member paid standard rate income tax on their retirement lump sum. The standard rate tax deducted from the retirement lump sum can be used to offset the tax due on any excess over the SFT.

From the remaining fund the member can then take their retirement lump sum and use the balance to buy an annuity or invest in an AMRF / ARF. Annuity income and withdrawals from AMRF /ARFs are subject to income tax and USC. PRSI is also due in certain situations, see example below for more information.

		Income Tax	PRSI	USC
Fund Value	€2,200,000			
Gross Retirement Lump Sum	€500,000 (25% of €2m)			
Tax Free Amount	€200,000			
Balance	€300,000	at 20% = €60,000		
Net Retirement Lump Sum	€440,000			
Excess over SFT	€200,000			
Gross Tax on excess over PFT		at 40% = €80,000		
Less tax deducted from Lump Sum		- €60,000		
Net Tax on excess over PFT		€20,000		
Fund value less tax on excess	€2,180,000			
Fund value available after lump sum	€1,680,000			
If invested in an AMRF / ARF		Will apply at client's marginal rate	Will apply up to age 66.	Will apply at client's rate.
If used to buy an annuity		Will apply at client's marginal rate	n/a	Will apply at client's rate.
If taken as an immediate lump sum		Will apply at client's marginal rate	Will apply up to age 66.	Will apply at client's rate.

HOW TO CHECK DEFINED BENEFIT PENSIONS AGAINST THE SFT

Pension entitlements from defined benefit schemes should be split between those accrued up to 1 January 2014 and those accrued after that date. Benefits accrued up to 1 January 2014 are valued using a capitalisation factor of 20; whereas benefits accrued after 1 January 2014 are valued using the new age related factors shown below.

Where a DB scheme gives members a choice of a full pension or a retirement lump sum and a reduced pension the SFT check must be run assuming the member chooses to take the full pension. This applies even if the member takes a retirement lump sum and reduced pension.

Age	Factor
50 (and below)	37
51	36
52	36
53	35
54	34
55	33
56	33
57	32
58	31
59	30
60	30
61	29
62	28
63	27
64	27
65	26
66	25
67	24
68	24
69	23
70 (and above)	22

Example 1

John is due to receive a pension of €45,000pa from his defined benefit scheme at age 65. To check this against the SFT, he needs to know how much of the €45,000 pension was accrued before 1 January 2014 and how much was accrued after that date.

In this example let's assume a pension of €27,000pa was accrued up to 1 January 2014 and the balance of €18,000pa was accrued after that date.

€27,000 is then multiplied by the factor of 20 giving a value of €540,000.

€18,000 is multiplied by a factor of 26 (factor for a 65 year old) giving a value of €468,000.

Therefore the total value of this pension is €1,008,000 which is within the €2,000,000 SFT limit.

3.5 PERSONAL FUND THRESHOLD

The standard fund threshold was first introduced 7 December 2005 at €5,000,000. At that time those with funds greater than the SFT were given the opportunity to apply for a personal fund threshold based on the value of their pensions on that date.

The SFT had indexed to €5,418,085 before it was reduced to €2,300,000 on 7 December 2010. Those with pensions greater than €2,300,000 on 7 December 2010 were also given the opportunity to apply for a PFT capped at the previous SFT of €5,418,085.

The SFT was reduced to €2,000,000 on 1 January 2014 and again those with funds greater than €2,000,000 on that date had an opportunity to apply for a PFT capped at the previous SFT of €2,300,000. More information on the SFT and PFTs can be found in our Standard Fund Threshold Flyer available on www.bline.ie.

The table across shows the standard fund threshold limits since its introduction.

Date	Standard Fund Threshold
7 December 2005	€5,000,000
2006	€5,000,000
2007	€5,165,000
2008 to 6 December 2010	€5,418,085
7 December 2010	€2,300,000
2011 - 2013	€2,300,000
1 January 2014	€2,000,000

SECTION 4

GLOSSARY

EARLY RETIREMENT

Early retirement is where benefits are taken before NRA. Early retirement is available from age 50 onwards provided the member leaves service with the employer with no expectation of returning to the same or associated employer. 20% directors must server all links with the company including disposing of their shareholding.

FINAL SALARY

can be calculated in one of the following three ways

1) **(a)** Basic remuneration in any 12 month period of the five years preceding the relevant date (i.e. the date of retirement, leaving service or death as the case may be)

(b) The average of any fluctuating emoluments for any three or more consecutive years ending on the last day used in (a) above.

2) The average of the total emoluments for any three or more consecutive years ending not earlier than 10 years before the relevant date.

3) The rate of basic pay at the relevant date or at any date within the year ending on that date plus the average of any fluctuating emoluments calculated as in 1)(a) above.

Certain conditions apply:

i) Basis (3) above cannot be used where within three years before the relevant date the member

- **a.** Was promoted or received a special increase in basic pay, and
- **b.** The total increase over the relevant three year period is greater than an increase in line with the Consumer Price Index or other increase in line with a National Wage Agreement.

ii) Where final salary is calculated using a year or years other than the previous 12 months those salaries may be increased in line with the increase in the cost of living from the last day of that year up to the relevant date. This also applies to fluctuating emoluments.

iii) 20% directors:

- **a.** must calculate final salary using basis (2) above.
- **b.** may not index their salaries (condition ii) if it provides for a retirement lump sum greater than one-third of the overall pension fund.

MAXIMUM PENSION FUND

For defined contribution schemes the maximum fund allowable at normal retirement age is the fund required to buy the maximum pension as calculated in section 2, even where the member opts for the ARF options.

NORMAL RETIREMENT AGE (NRA)

On a company pension can be between ages 60 and 70. A member must have the same NRA for all company pension, AVC schemes and PRSA AVCs for the same employment.

PROPRIETARY DIRECTOR

Means a director who, either alone or together with his or her spouse, civil partner and minor children or the minor children of the civil partner is or was, at any time within 3 years of the date of

i) the normal retirement age

ii) an earlier retirement date, where applicable

iii) leaving service, or

iv) in the case of a pension or part of a pension payable in accordance with a pension adjustment order, the relevant date in relation to that order,

The beneficial owner of shares which, when added to any shares held by the trustees of any settlement to which the director or his or her spouse or civil partner has transferred assets, carry more than five percent of the voting rights in the company providing the benefit or in a company which controls that company.

RETAINED BENEFITS

Means any pension benefit built up relating to a previous employment or previous periods of self-employment. This can include company pensions, personal pensions, PRSAs and buy out bonds (PRBs) which are deferred or already in payment. It does not include State Pensions.

RETAINED LUMP SUM BENEFITS

Means any retirement lump sum from pensions built up from previous employments or previous periods of self-employment. This can include retirement lump sums from company pensions, personal pensions, PRSAs and buy out bonds (PRBs) which are deferred or already paid.

20% DIRECTOR

Means someone who directly or indirectly at any time in the last three years owned or controlled more than 20% of the voting rights in the employer company, or in the parent company of the employer company.

A 20% director of an investment company may not be included in an occupational pension scheme.

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CONTACT US

PHONE:	01 704 1010 8am to 8pm Monday to Thursday 10am to 6pm on Fridays 9am to 1pm on Saturdays
FAX:	01 704 1900
EMAIL:	customerservice@irishlife.ie
WEBSITE:	www.irishlife.ie
WRITE TO:	Irish Life Assurance plc, Irish Life Centre, Lower Abbey Street, Dublin 1.

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